

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7186

BILL NUMBER: SB 388

NOTE PREPARED: Jan 10, 2005

BILL AMENDED:

SUBJECT: Water and sewer sales tax exemptions.

FIRST AUTHOR: Sen. Server

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a Sales Tax exemption for sales of any chemicals to a:

- (1) municipally owned water or sewer utility;
- (2) water or sewer utility owned by a special district;
- (3) water or sewer utility owned by a nonprofit corporation; or
- (4) person that contracts with a municipality to provide water or sewer services to the municipality;

if the person acquiring the chemicals will use them to treat water or sewage within the utility system.

Effective Date: July 1, 2005.

Explanation of State Expenditures: This bill provides a Sales Tax exemption for sales of chemicals that are acquired to treat water or sewage within the utility system and that are sold to one of the four persons or entities listed above. Based on an interpretation by the Department of State Revenue (DOR) municipally owned water or sewer utilities, water or sewer utilities owned by a special district, and water or sewer utilities owned by a nonprofit corporation currently qualify for a Sales Tax exemption for these chemical purchases under IC 6-2.5-5-14. This bill specifically codifies that DOR interpretation and also expands the exemption to cover persons that contract with a municipality to provide water or sewer services to the municipality.

The DOR currently has procedures in place to administer this exemption for the entities listed in 1-3 above. Therefore, the DOR will have to expand it's procedures to administer this exemption for a person that contracts with a municipality to provide water or sewer services to the municipality. It is unknown how many additional

people will qualify for this exemption. Since the DOR currently has procedures in place to administer this exemption, any increase in administrative costs should be able to be covered through the use of existing staff and resources.

Explanation of State Revenues: This bill will result in an indeterminable decrease in Sales Tax revenue. It is unknown how many persons currently contract with a municipally owned utility to provide water or sewer services to the municipality. Therefore it is unknown how much Sales Tax revenue will be lost as a result of this legislation.

Sales Tax revenue is deposited in the: Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: DOR *Information Bulletin #51; Uniform System of Accounts for Water and Wastewater Utilities*; Andrea Brandes, Asst. General Counsel, IURC, 317-232-2092.

Fiscal Analyst: Adam Brown, 317-232-9854.